

**Testimony to the House Committee on International Relations Subcommittee on Africa,  
Global Human Rights and International Operations Subcommittee  
Hearing on the Africa Growth and Opportunity Act: A Five Year Assessment  
20 October 2005  
Submitted by Dr Sarah Wykes, Senior Campaigner, Global Witness**

Mr Chairman, Members of the House Committee on International Relations Africa, Global Human Rights and International Operations Subcommittee, thank you for this opportunity to testify before you on the subject of the Africa Growth and Opportunity Act (AGOA).

Global Witness<sup>1</sup> and our partners in the **Publish What You Pay** campaign,<sup>2</sup> many of whom are citizens of resource-rich-but-poor countries in sub-Saharan Africa that are eligible for trade benefits under AGOA, believe that the high levels of corruption and mismanagement of public revenues from natural resources in countries such as Angola, Cameroon, Chad, the Democratic Republic of Congo, Gabon, Guinea Bissau and the Republic of Congo are not being given due weight when considering such countries for eligibility under AGOA.

Corruption is a major hindrance to the development of sub-Saharan Africa. The African Union estimates that corruption costs African economies more than \$148 billion each year, equal to 25% of Africa's GDP, and increases the cost of goods by as much as 20%, to the detriment of investment and development.<sup>3</sup> It would not be costly to the USA to address this problem through its position as a major trading partner,<sup>4</sup> and would have a major effect in spurring the region's development and future stability. The promotion of stronger institutions can only be beneficial in stimulating investment into the region from the current minimal levels.<sup>5</sup>

AGOA has provided important trade opportunities to African countries, while at the same time establishing a set of eligibility criteria in Section 104 of the Act that include good governance standards, including 'a system to combat corruption.' The AGOA Acceleration Act of 2004 reinforced the good governance provisions in AGOA by emphasizing support for the goals of the New Partnership for African Development, 'including improving transparency, good governance, and political accountability.' The report accompanying the AGOA Acceleration

---

<sup>1</sup> Global Witness investigates the links between the exploitation of natural resources and the funding of conflict and corruption. It is non-partisan in all its countries of operation. Global Witness was co-nominated for the 2003 Nobel Peace Prize for its leading work on conflict diamonds and awarded the Gleitsman Foundation prize for international activism in May 2005.

<sup>2</sup> The *Publish What You Pay* campaign was launched in June 2002 and now has more than 270 members worldwide (see [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org)). The coalition believes that revenue transparency is an essential condition for alleviating poverty, promoting just development, improving corporate social responsibility, and reducing corruption in many resource-rich developing countries, and calls for stock market and international accounting rules to require oil, gas and mining companies to disclose their net payments to governments and for all non-humanitarian multilateral and bilateral aid to such countries to be conditional on there being a transparent and functional system of accounting for public revenues.

<sup>3</sup> *Combating Corruption in Africa*, report presented at January 2003 African Union Conference, <http://www.u4.no/helpdesk/helpdesk/queries/quervattach/q44Addisreport.pdf>

<sup>4</sup> See, for instance, 'Does Corruption Affect Income Inequality and Poverty?', by Sanjeev Gupta, Hamid Davoodi and Rosa Alonso-Terme, IMF working paper, 1998.

<sup>5</sup> See 2005 UN World Development Report, <http://www.unctad.org/Templates/webflyer.asp?docid=6087&intItemID=3489&lang=1&mode=downloads>) Africa accounted for under 3% of global FDI inflows, and Sub-Saharan Africa under 2%.

Act further specified that the eligibility criteria should be used to ‘encourage greater transparency with regard to revenues in the natural resource sectors.’

Given that imports of natural resources comprise at least 85% of imports receiving trade benefits under AGOA, it is essential that the AGOA eligibility criteria give proper consideration to the serious governance concerns in those sectors. In a number of African countries, lack of transparency regarding natural resource revenues facilitates corruption and the misappropriation and misuse of critically needed government funds.

Moreover, promoting natural resource revenue transparency will help to ensure that governments act responsibly in their management of such funds and will create the possibility of open dialogue about the best use of those revenues. In recognition of the fundamental importance of revenue transparency to good governance, the Department of the Treasury recently supported introducing natural resource revenue transparency requirements in World Bank lending to extractive sector projects.

We would like to focus in particular on two countries that are currently eligible for AGOA, Angola and the Republic of Congo. We believe that eligibility for both countries should be reconsidered given their extremely poor records of governance, including persistent opacity in the management of natural resource revenues.

### **Angola**

According to the 2004 State Department Report on Angola, ‘[c]orruption, nontransparent contracting practices, and unfair enforcement of regulatory and tax regimes favored the wealthy and politically influential. Poor governance continued to limit the provision of basic services to most citizens.’<sup>6</sup> The State Department also characterized the government’s human rights record as ‘poor’ and marked by ‘serious problems’, including unlawful killings, torture, and arbitrary arrest and detention. In its just published Corruption Perceptions Index for 2005, Transparency International ranked Angola only 151 out of 159 countries surveyed.<sup>7</sup>

Oil is the main source of income for the Angolan government and with prices at record highs, total oil revenues for 2005 are estimated at around \$6.88 billion.<sup>8</sup> Despite its vast mineral wealth, Angola remains one of the world’s poorest countries, ranked at 160 out of 177 on the UN’s Human Development Index.<sup>9</sup> Most Angolan citizens live on less than \$2 per day and at least 45 percent of Angolan children are severely malnourished.<sup>10</sup> Social expenditure has, according to the Economist Intelligence Unit, ‘historically [...] been shocking low even by regional standards’ and in 2005 was set to rise by only 1.5% of GDP.<sup>11</sup>

---

<sup>6</sup> Angola Country Report, 28 February 2005, <http://www.state.gov/g/drl/rls/hrrpt/2004/41587.htm>

<sup>7</sup> See Transparency International Corruption Perceptions Index 2005, [http://www.icgg.org/corruption.cpi\\_2005.html](http://www.icgg.org/corruption.cpi_2005.html)

<sup>8</sup> IMF Country Report for Angola, August 2005, <http://www.imf.org/external/country/cog/index.htm>

<sup>9</sup> See [http://hdr.undp.org/reports/global/2005/pdf/HDR05\\_HDI.pdf](http://hdr.undp.org/reports/global/2005/pdf/HDR05_HDI.pdf)

<sup>10</sup> See IRIN, United Nations News Service, ‘Angola: Legacy of war, failed harvests combine to erode security’, September 12 2005,

[http://www.irinnews.org/report.asp?ReportID=49134&SelectRegion=Southern\\_Africa&SelectCountry=ANGOLA](http://www.irinnews.org/report.asp?ReportID=49134&SelectRegion=Southern_Africa&SelectCountry=ANGOLA)

<sup>11</sup> Economist Intelligence Unit, Angola Country Report, December 2004, p. 18.

Angola's poor record of governance can be seen clearly in its management of both oil and diamonds. According to IMF reports, between 1997 and 2001, \$8.45 billion of public money was unaccounted for (an average of 23% of GDP), and the Angolan government still has no transparent system for managing its oil money.<sup>12</sup> For instance, there is no public information about whether centralization of oil revenues through the central bank has been achieved, nor has any audit of the central bank been published, both key recommendations of a study of the upstream oil sector published in 2003, which revealed an overall picture of appalling fiscal laxity.<sup>13</sup> Equally, there are no published audits of the national oil company, Sonangol, nor any publication of Sonangol's accounts, just as no government accounts are produced to justify budgetary expenditure and there is no proper public scrutiny of the expenditure process.

There are similar concerns over lack of transparent and responsible management of Angola's other main source of wealth, diamonds. Despite Angola's membership of the Kimberley Process international diamond certification system, internal controls in the diamond industry in Angola remain extremely weak, providing no assurances of the origin of diamonds mined informally, nor that they are conflict-free. There is also inadequate regular monitoring and auditing of the diamond industry. In addition, according to evidence collected by Angolan and international civil society, government attempts to crack down on the informal sector by forcibly expelling diamond diggers has led to widespread human rights abuses by formal and informal security forces.<sup>14</sup> Accompanying these extensive expulsions is the militarization of the diamond fields in Angola. According to information obtained by Global Witness, large areas are now mined exclusively by the military and their production is systematically smuggled out of the country, bypassing the official Kimberley Process certification system.

At the heart of Angola's poor development record lies the country's huge indebtedness, currently standing at \$9.5bn or half its GDP.<sup>8</sup> The government continues to seek expensive commercial loans backed by oil rather than seeking cheaper loans from development banks which would require a commitment to manage public money more transparently. Oil-backed loans are condemned by the IMF as detrimental to growth and inherently lacking in transparency, since the use of the funds is undisclosed. In the case of Angola, the World Bank has described the government's oil-backed lending as the core obstacle to the country's development.<sup>15</sup>

The long-standing concerns about the lack of fiscal transparency and accountability in Angola now extend to the country's reconstruction process. There has to date been no public scrutiny of either specific reconstruction projects or of the procurement process managed by the National Reconstruction Office, including of projects selected under the terms of the \$2 billion credit line extended to Angola by China. Overall, there has been no public, up-to-date evaluation of Angola's financing needs for reconstruction (estimated at US\$300-500 million in 2002/03 discussions with IMF, Bank and other donors), especially given the huge surplus in

---

<sup>12</sup> See Global Witness, *Time for Transparency*, March 2004, p. 47.

<sup>13</sup> See <http://www.angola.org/referenc/reports/oildagnostic/index.html> and *Time for Transparency*, March 2004.

<sup>14</sup> *Lundas – the stones of death, Angola's deadly diamonds*, by Rafael Marques and Rui Falcao de Campos, March 2005.

<sup>15</sup> See *World Bank Report 29036-AO*, February 16 2005, [http://www-wds.worldbank.org/servlet/WDS\\_IBank\\_Servlet?pcont=details&eid=000090341\\_20050310101310](http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20050310101310)

both oil production and the oil price increases in 2004, and the over \$4 billion in oil-backed loans arranged during 2004-5.<sup>16</sup>

### **Republic of Congo**

According to the latest State Department report on Republic of Congo, political power remains highly centralized in the Presidency while the judiciary is 'subject to political influence, bribery, and corruption'. The report also states that '[t]he Government's human rights record remained poor' and that the country suffers from 'impunity and lack of transparency'.<sup>17</sup> In terms of corruption, Congo is ranked 130 out of 159 countries by Transparency International.<sup>7</sup>

Oil accounts for around 65-70% of Congo's income and the country is expected to earn just under \$1.5 billion in oil revenues in 2005.<sup>18</sup> Yet Congo is one of the poorest and most indebted countries in the world, with around 70% of the population living under the poverty line and an external debt of \$8.57 billion.<sup>19</sup> The Congolese government is currently asking the international community for massive debt relief. At the heart of the IMF and World Bank reform programme are measures to bring greater transparency to the opaque management of Congo's oil revenues, to ensure that they are fully mobilized for sustainable development and poverty reduction.

Faced with international and domestic pressure to reform, the government has made various declarations of its commitment to increasing oil sector transparency. It has also published a large amount of data on how the national oil company, the Société Nationale des Pétroles du Congo (SNPC), is managing the country's wealth.<sup>20</sup>

**Publish What You Pay** welcomes the oil sector transparency reforms that have been put in place under the IMF/World Bank programme. Yet unfortunately, analysis of the published data which Global Witness recently presented to the IMF reveals little substantive change to the systemic mismanagement and secrecy that has dogged Congo's oil sector to date.<sup>21</sup> In particular, the quarterly audits of oil revenue carried out by an independent auditor appear to

---

<sup>16</sup> See Global Witness press release 'Western banks to give huge new loan to Angola in further blow to transparency', 23 September 2005, [http://www.globalwitness.org/press\\_releases/display2.php?id=309](http://www.globalwitness.org/press_releases/display2.php?id=309)

<sup>17</sup> See Republic of Congo Country Report, 28 February 2005, <http://www.state.gov/g/drl/rls/hrrpt/2004/41598.htm>

<sup>18</sup> See *Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report*, International Monetary Fund, January 10 2005 and [http://www.mefb-cg.org/petrole/certification\\_concordance.htm](http://www.mefb-cg.org/petrole/certification_concordance.htm).

<sup>19</sup> See World Bank Country Report April 2005, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/CONGOEXTN/0,,menuPK:349223~pagePK:141132~piPK:141107~theSitePK:349199,00.html> and *Republic of Congo: Review of Performance Under the Staff-Monitored Program and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report*, International Monetary Fund, January 10 2005.

<sup>20</sup> This includes publication of: quarterly certification of oil revenues by an independent auditor (2003 to Q2 of 2005); annual summaries of financial transactions undertaken by the national oil company (SNPC) on behalf of the government; tables of financial operations by the state; 3 independent audits of SNPC (partial for 1999-2001 and 2002, and complete for 2003); and reconciliations between the quarterly certifications of oil revenue and TOFE by an independent auditor (2003 and 2004). See [http://www.mefb-cg.org/petrole/gouv\\_transp.htm](http://www.mefb-cg.org/petrole/gouv_transp.htm)

<sup>21</sup> Global Witness 'Republic of Congo Transparency Scorecard', 27 July 2005 and Global Witness press release 'Has the IMF dropped the ball on transparency reforms in the Republic of Congo?', 15 August 2005. [http://www.globalwitness.org/press\\_releases/display2.php?id=303](http://www.globalwitness.org/press_releases/display2.php?id=303)

show around \$300 million of oil revenues more than the Ministry of Finance's own statements in 2004. In short, around one third of Congo's 2004 oil income appears to be unaccounted for in the budget. Moreover, an independent auditor tasked with reconciling the discrepancies was not given access to bank account information but only to specially prepared statements by the Congolese authorities.<sup>22</sup>

Overall, auditors found SNPC's accounts 'not even auditable', for the third year running, with a significant risk of fraud due to lack of internal controls.<sup>23</sup> The published data also shows that in 2004, the national oil company sold Congo's oil for an average of 6% below its market value. Poor sales terms combined with expensive short-term loans cost Congo \$173 million of its oil revenue (around 17.5%) in 2004.

In 2003, \$20 million was lost on oil sales at below market prices to Sphynx (UK) Ltd. At the time, Sphynx was managed by Denis Gokana, formerly Special Advisor to the Congolese President and since January 2005 Head of the national oil company. Global Witness has seen evidence that sales of oil at significantly below market prices to Sphynx and other companies owned by Gokana continued into 2005.

Despite this clear evidence of serious mismanagement and conflict of interest, in August the IMF Board approved the country's progress towards the decision point for major debt relief by its official creditors (amounting to around two thirds of its total debt).<sup>24</sup> The IMF cited 'a welcome improvement in governance', including 'steps to enhance transparency with regard to oil sector transactions'.<sup>25</sup>

The **Publish What You Pay** Coalition believes that the credibility of multilateral and bilateral donors depends on ensuring that governance reforms in countries like Congo are properly implemented and result in increased transparency: otherwise the public will see donors as involved in mere 'rubberstamp' reform. Moreover, multilateral donors have a fiduciary responsibility to ensure that the international taxpayers' money supporting their lending is not being channelled to governments whose fiscal systems are characterised by secretiveness and mismanagement.

Global Witness and its partners in the US **Publish What You Pay Coalition** believe that the US government bears a similar responsibility towards US taxpayers in terms of ensuring that any form of bilateral non-humanitarian assistance it provides to developing countries, including through preferential trade agreements, promotes good governance and fiscal transparency.

In its annual review of AGOA country eligibility for 2005, the Office of the United States Trade Representative (USTR) had an opportunity to play an important role in addressing the importance of natural resource revenue transparency for good governance in Africa. Angola and the Republic of Congo, plus the other countries mentioned above, all of which rank very

---

<sup>22</sup> See [http://www.mefb-cg.org/petrole/certification\\_concordance.htm](http://www.mefb-cg.org/petrole/certification_concordance.htm).

<sup>23</sup> See [http://www.mefb-cg.org/petrole/revue\\_etat\\_finsnpc.htm](http://www.mefb-cg.org/petrole/revue_etat_finsnpc.htm)

<sup>24</sup> IMF Heavily Indebted Poor Countries Initiative: Status of Implementation, August 20, 2004, p. 10.

<sup>25</sup> *IMF Executive Board Completes First Review Under the Republic of Congo's PRGF Arrangement and Approves US \$11.41 Million Disbursement*, IMF Press Release 05/181, 3 August 2005.

low on a range of anti-corruption and good governance indices, clearly fail to meet the eligibility criteria established in Section 104 of AGOA and elaborated in the AGOA Acceleration Act. Unfortunately, by allowing Angola and Republic of Congo to remain for another year among those countries that receive benefits under AGOA, USTR enables and appears to condone the corrupt and non-transparent practices of such governments.

During the next review of AGOA eligibility, we believe that the United States government should ensure that it is promoting natural resource revenue transparency for the well-being of the citizens of African countries and therefore that resource rich countries with a clear record of corruption and misappropriation of public revenues should be removed from the list of AGOA eligible countries.